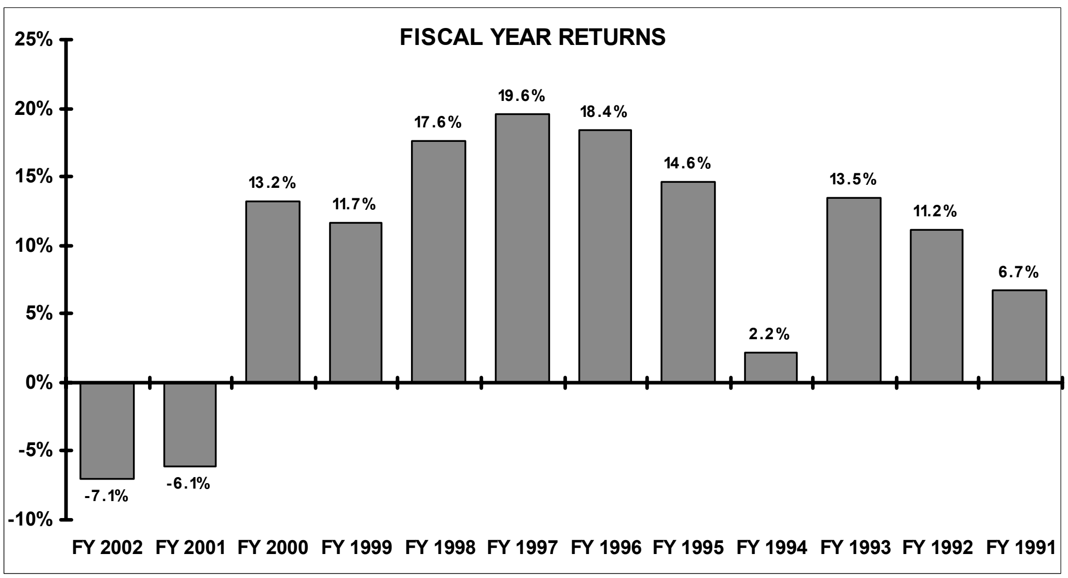
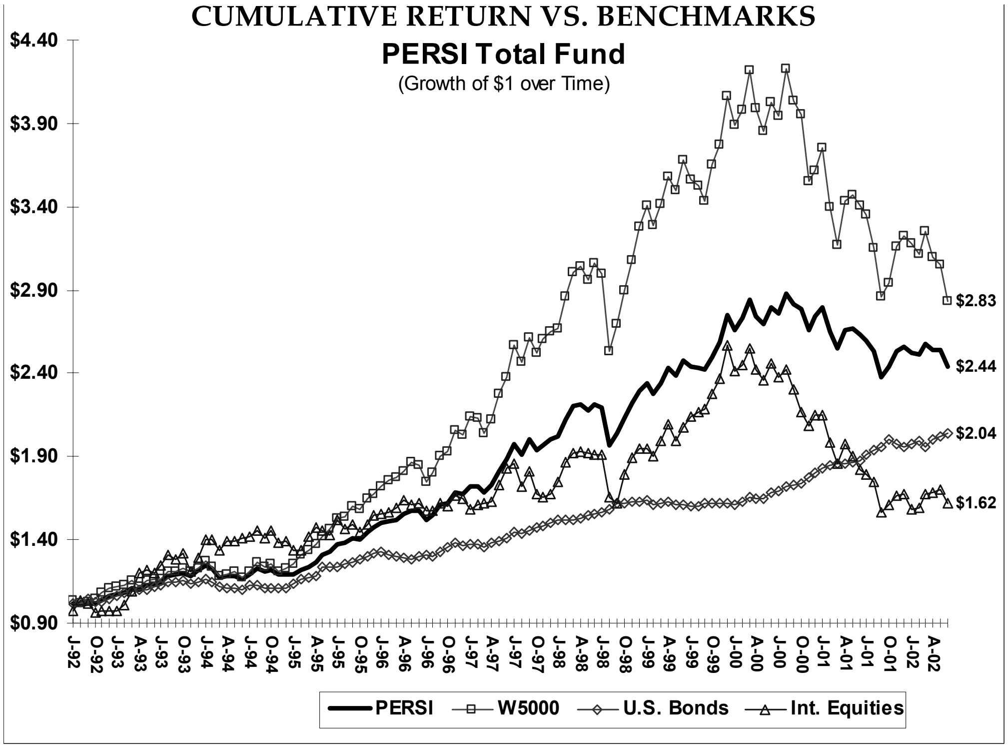
REPORT ON INVESTMENT ACTIVITY
Prepared by Robert M. Maynard, Chief Investment Officer

The past year was the nail in the coffin for the equity culture of the 1990's. After a bad year in Fiscal Year 2001 for equities, FY 2002 was even worse. The US equity market lost 16.8%, compared with -15% in FY 2001. The international equity market lost 11% in FY 2002, compared with -26% the year before. These annual and two-year returns almost approached the 1973-1974 bear markets (-37%) and were the third worst two-year markets since the Great Depression.

PERSI lost -7.07% for the year, compared with -6.08% the year before, for a two year loss of -12.74%. Again, it was the worst performance since 1973-1974 (when the PERSI returns were -6.8% and -16.0%, respectively), and the third worst in PERSI's history. The ending value of the fund was $6,294,160,887, a decline in value of almost $433 million (a $474 million investment loss was slightly offset by a net cash flow gain from contributions of $41 million). Over the past two fiscal years, the PERSI fund has declined in value by around $945 million. ($915 million due to investment losses and $30 million due to net cash outflows from gain sharing and benefit payments). Our fiscal year returns over the past twelve years have been as follows.



Over the past ten years the relative performance of each of the major asset types used by PERSI have performed as follows:



As can be seen, the huge run-up in equities in the late 1990's has been almost wiped out. As a result, the overall ten-year performance of equities and fixed income has been around normal for US investments (11.6% annually for US stocks, and 7.4% annually for US bonds, with PERSI returns of 9.5% annually). International equities have clearly suffered, although much of this has been due to the abnormal strength of the US dollar, which many now believe in the process of a sustained reversal to a period of dollar weakness.

Were there any bright spots over this recent period? Yes -- fixed income, real estate, and emerging markets. PERSI's real estate investments returned 18.2%, emerging markets returned around 7.5%, and fixed income returned 8.2%, led by the Idaho commercial mortgages (10.6%) and Treasury Inflation Indexed Securities (9.5%). The only other positive account was Mountain Pacific, with returns of 3.5%.

During the late 1990's, a question started to be asked of PERSI, namely "Since you are long-term investors, why do you have any bonds at all?" The last two years have shown why even long-term investment strategies have some fixed income. Over the past year, US bonds generally rose 8.8%, after having gained 11.4%, for a two-year return of 21% (PERSI's bond returns were slightly higher). Over that two-year period, therefore, US bonds outperformed US stocks by 51%, the greatest out-performance over a two-year period since the Great Depression, and the second biggest out-performance since the 1850's.

Of course, with a needed return of 8% nominal (5% after inflation) in order to "break even" over the long term, PERSI cannot have even a majority of its assets in fixed income. With a long-term government bond yield below 5%, and a real return of slightly over 3%, every bond in the PERSI portfolio guarantees a long-term loss against our needed return – particularly since interest rates appear to be at a cyclical low after a decade long decline. Many think that the fixed income market has reached a peak in absolute and relative returns over the past decade-and-a-half, similar to the peak in equity values only a couple of years ago.

Nonetheless, the past couple of years have shown the value of diversification for a long-term investment strategy. Bonds can outperform stocks, even over a period of years. In fact, the recent out-performance of fixed income has made it a better investment over a cumulative five-year period by beating US equities at an annualized rate of 7.6% to 3.5%, (the two assets break about even after six cumulative years, and US equities handily outperforming US bonds for cumulative time periods greater than six years).

In addition, PERSI, while generally a "long-term" investor, does have significant shorter term interests. Our contribution rates are determined by rolling three to five year returns; the payment of Cost of Living Allowances above 1% are determined by one to two year returns. These shorter term investment impacts were the reason that the Board had set aside a reserve to handle a "normal" bad investment cycle. [This was defined as a "one standard deviation reserve", and incorporated into our legislative mandates]. Over any particular period, this will cover around 85% of the potential market movements. And, it sufficed to cover the previous bad year of FY 2001.

Unfortunately, the past two years, as described above, were both abnormally bad markets – one of the worst over the past century-and-a-half – and well past the one standard deviation limit (in fact, PERSI would have to make 18% over the next fiscal year in order to get back to a one standard deviation three-year result). Even the reserve set aside will not suffice. But, going forward, the past two years demonstrates the wisdom of a generally diversified investment approach.

The other bright spot was PERSI's relative performance over the past year. If PERSI had simply matched the market returns in US equities, fixed income, and international equities, it would have lost 9% over the past year, and -17.4% over the past two years. Instead, our losses were "only" 7.1% over the past year and 12.7% over the past two years – a "gain" of almost 2% over the past year and 5% over the past two years.

This better-than-market performance came in all asset classes over the past two years, and all asset classes except fixed income over the past year. In the past year, PERSI US equity lost 16.1%, compared to the general US equity market loss of 16.8% (Wilshire 5000). Global equity managers (those that can invest both in the US and international equity markets) lost 14%, compared to the general world equity market loss of 16.1% (MSCI World). International equity managers collectively lost 9.9%, compared to the international market losses of 10.9% (MSCI EAFE). PERSI US fixed income gained 8.2% compared to the general investment grade US fixed income gain of 8.8% (Lehman Aggregate).

Mountain Pacific had a very successful year, actually making a positive 3.5% compared to a general loss of -6.3% for its small cap benchmark (Russell 2500). Tukman also had a comparatively successful year, losing "only" 4.4% compared to their benchmark's (S&P 500) loss of 18.2%. MFS had a bad year both relatively and absolutely, losing 21.8% compared to the general market loss of 16.8%. Columbus Circle, a long-time PERSI manager, had a disastrous year, losing over 30% for the year. Due to longer term performance and personnel issues, Columbus Circle was terminated in the spring. In general, small cap value and "GARP" (Growth at a Reasonable Price) managers were more successful than growth managers, and, in particular, large cap growth managers.

The most successful PERSI manager was Lend Lease, a REIT (Real Estate Investment Trust) manager, who earned a positive 19.5% for the year, and handily beat its benchmark Wilshire REIT index return of 15.9%. PERSI's real estate investments generally made 18.5% for the year, while Private Equity lost 12.2% for the year.

PERSI's global managers generally performed better than the US markets, although all lost money for the year. Brandes was the best performing global manager with a loss of 8.8%, followed by Scudder (now Deutsche Bank)(-13.3%), Barings (-16.4%), and Zesiger (-20.2%). The global managers program generally, however, has been a big success, having outperformed all equity markets by about 8% a year for the past five years (returning 8.5% annually compared to general market returns of 0.8% - a cumulative out-performance of over 46%). As a result, when PERSI terminated Columbus Circle, we hired another global manager – Capital Guardian – to begin managing in the next fiscal year.

Emerging markets finally came through in FY 2002, after a few years of very poor returns. Both of PERSI's emerging market managers handily beat the general emerging market returns of -1%. Genesis made a positive 9.8% for the year, and Schroders made a positive 4.7%.

The rest of the international equity markets did not do so well, although most of PERSI's managers beat their benchmarks. The general international developed market return of -10.9% was beaten by Rowe Price (-6.3%), and Schroders (-9%), while TCW lagged (-15.9%).

PERSI fixed income actually underperformed the general investment grade fixed income market for the first time in a decade, returning only 8.2% compared to general market returns of 8.8% (Lehman Aggregate). All portions except the Idaho Mortgage

Program (10.6%) underperformed, led by a disastrous year from Credit Suisse (1.3%). The other managers or sectors underperformed as well, with Barings gaining 7.7%, DBF (8.8% compared to the Lehman Mortgage return of 9%), and even the State Street index fund underperformed (7.8% compared to the Gov/Corp Index of 8.4%). PERSI's buy and hold TIIS (Treasury Inflation Indexed Securities) bonds returned 9.5%.

The corporate bond and high yield sector had a very rough year, which accounted for much of the underperformance of PERSI's managers. Given the longer term success of this line-up of managers (which has led to an annualized out performance of around 50 basis points a year for the past ten years), one bad year does not call for massive changes, although closer scrutiny will be given to the program over the next year. The substantial amount of exposure to TIIS and the Idaho Mortgage Program allowed the total fixed income to come as close to the general market as we did over the fiscal year.

As stated, while there were some islands of prosperity, and although PERSI's relative performance was very good, the past two years demonstrate the volatility and potential losses inherent in any investment program. Bad markets will occasionally occur, and no single investment will have uniformly good results.

PERSI does not attempt to "time" the various markets. Trying to time markets has a number of perils, and few (if any) institutions have been consistently successful in that approach. To the extent one engages in this activity, one must be more often right than wrong -- simply being right half the time will lose the timer money. The problem is that timing requires two correct calls: when to sell (or raise cash), and when to repurchase. The timer must be correct on both actions in order to match a generally rising market (as occurs with the stock market over time).

A timer, to be successful, also cannot miss even a few good quarters. Most of the positive action tends to be compressed into just a few periods. These periods (perversely but understandably) tend to follow particularly adverse times. In particular, the ability to time bull markets is essential, whereas the ability to foresee bear markets less important. Missing a few good quarters can drastically change the advantage of timing, since the effect of a "good" quarter is compounded over time.

For example, one study (done in the mid-1980's) looked at returns for the period 1975-1982. During that period perfect timing -- being fully invested in all good quarters, and fully in cash during all bad quarters -- would have produced a +10.2% return over market. Horrible timing -- in all bad quarters, out all good -- would have underperformed the market by 17.2%. More interestingly, missing only the three best quarters of that eight-year period would have resulted in the investor being better off in T-bills for the entire eight year period. These three excellent quarters followed substantially negative quarters, and many market timers may have been on the sidelines.

And, even being right only half the time would lose money due to the additional costs of moving large amounts of money between asset classes (transaction costs, management fees, and cash drag).

Instead, PERSI invests its fund in a broad range of domestic and international assets, with most of its assets in US stocks and bonds. The mix of investments is chosen to best match PERSI's long-term return requirements. Those requirements are driven by a need to keep pace with inflation -- both to match increases in active member's salaries and to provide Cost of Living Allowances for retired members. As a result, PERSI has around 70% of its investments in equity interests, which provide the best long-term protection against increases in inflation.

There is an old investment saying that there are three roads to successful investing: one is intellectually exhausting, one is physically exhausting, and the third is emotionally exhausting. The intellectually exhausting way is to out-smart everyone else. While PERSI's outside managers are very intelligent, we do not expect that they are that much smarter than all other professional managers. The physically exhausting way is by working harder than everyone else. Again, there are only so many hours in the day, and thousands of experts pouring through massive amounts of data. PERSI does not count on extraordinary physical effort to assure success.

The third route is the one PERSI has chosen – the way that can be emotionally exhausting. This is simply carefully formulating a long-term plan and sticking with it through good times and bad. And, when markets look like they are crashing and the future looks bleak, it means standing one's ground – even when that plan has recently lost money and looks like it might be courting near-term disaster. It means overcoming the fear of short-term catastrophe, and not abandoning that plan.

Very rarely do pension funds fail to meet their long-term liabilities through lack of investment results from a stable, long-term policy. More often, investment disasters or long-term poor performance occurs because of a failure in the ability of a fund to maintain a consistent investment approach through an entire investment cycle -- where strategies are abandoned after a poor period just at the point they are about to become successful, and recently successful strategies are implemented just as they are about to become underperformers.

This, in fact, was PERSI's experience for the first two decades of its history. Until 1987, PERSI invested its assets through four local bank trust departments, without any central asset allocation or strategic policy oversight. The result was that during that period, PERSI's overall portfolio essentially "chased trends" by increasing equities after a period of good returns and reducing equity exposure after poor years. As a result, from 1965 through 1981, PERSI's overall returns lagged each and every asset class, including cash. If PERSI had simply consistently maintained any reasonable asset allocation (50% or more equities) during those years, its assets would be over $1 billion higher today.

Consequently, developing and maintaining a consistent and reasonable long-term strategy is the centerpiece of PERSI's investment efforts. The events of the past year are an excellent example of the perils, and the fears, of such an approach. The PERSI investment program is designed with these types of markets in mind, and is assumed to occasionally occur. Including the past two years, PERSI has grown at an annual rate of 9.3% over the past ten years -- a cumulative out performance of over 31% greater than what was needed to meet the actuarial assumptions, and which has almost tripled the size of the fund. In addition, PERSI also has another "asset" of importance – the annual contributions of the employers and employees which can be adjusted to kept the fund healthy, if necessary. Finally, even if the investment portfolio disappeared tomorrow, the benefits are still guaranteed by the state and the employers. Thus, the past two years, while poor, have not hurt the health of the PERSI program. PERSI benefits are secure and safe.

For the numbers presented, the source of the above-disclosed data is the Mellon Trust Services Reporting System, which follows AIMR's Performance Presentation Standards.

Investment Summary for the Year Ended June 30, 2002

Types of Investment		Market Value		Percent of Total Market Value
Short-term Investments		$ 179,667,406		2.9%
Fixed Income				
Domestic Bonds	1,586,029,994		25.4%	
International Bonds	15,995,371		0.3%	
Mortgages	306,568,058		4.9%	
Total Fixed Income		1,908,593,423		28.3%
Common Stock				
Domestic Equity	2,373,787,980		37.8%	
International Equity	1,624,809,820		26.0%	
Total Common Stock		3,998,597,800		63.9%
Private Equity		135,981,890		2.2%
Real Estate		33,450,352		0.5%
Total Base Plan Investments		$ 6,256,290,871		100.0%
Other Funds:				
Sick Leave Insurance Reserve		123,299,472		
Mutual Fund Holdings in Choice Plan		86,624,027		
Total Investments in All Funds		$ 6,466,214,370		

Schedule of Investments by Account (including interest and dividends receivable) as of June 30, 2002

Apollo Management, LP	$3,389,473
Baring Asset Management, Inc.(Equity)	165,921,896
Baring Asset Management, Inc.(Fixed Income)	218,283,299
Brandes Investment Partners, LP	270,441,270
Capital Guardian	164,023,583
Cash in Short-Term Investment Pool at Mellon	6,162,647
Chisholm Management IV, LP	13,188,780
Credit Suisse Asset Management	179,845,663
D.B. Fitzpatrick & Co., Inc. - Idaho Mortgages	311,398,990
D.B. Fitzpatrick & Co., Inc. (Fixed Income)	108,977,319
Deutsche Bank	179,080,623
Furman Selz Investments	12,648,916
Galen Associates	25,188,641
Genesis Asset Managers, Ltd.	91,429,759
Goense Bounds & Partners, LP	4,558,345
Harvest Partners, Inc.	22,132,506
Highway 12 FD Venture, LP	1,286,000
Ida-West	3,275,000
Lend Lease Rosen	177,482,224
Littlejohn II, LP	5,684,926
McCown DeLeeuw & Co.	8,997,253
Mellon Capital Management, R2000 Small Cap	104,785,669
Mellon Capital Management, S&P 500 Large Cap	1,109,858,042
Mellon Capital Management, Mid Cap Completion	124,308,753
Mellon Capital Management, International Stock Index	252,058,292
Mellon-Dreyfus (Choice Plan Mutual Fund Holdings-Alternative Funds)	19,683,402
MFS Institutional Advisors, Inc.	173,804,791
Mountain Pacific Investment Advisors, Inc.	272,191,605
Oaktree Capital Management	5,128,528
Pareto Partners	(4,820,423)
Providence Equity Partners III, LLP	11,867,810
Prudential Investments	33,460,363
Rowe Price International, Inc.	193,137,925
Saugatuck Capital Company	6,514,224
Schroder Capital Management International, Inc. (EAFE)	183,753,273
Schroder Capital Management International, Inc. (Emerging Markets)	82,987,303
State Street Global Advisors	412,113,322
State Street Global Advisors (TIPS)	712,215,280
State Street Global Advisors (Sick Leave Insurance Reserve)	123,299,472
T3 Partners II, LP	184,689
TCW London International, Ltd.	191,206,088
Thomas Lee, LP	18,083,768
Tukman Capital Management, Inc.	251,456,853
Zesiger Capital Group	157,194,906
Zesiger Capital Group (Private Equity)	29,271,373
Total Market Value, Including Investment Receivables and Payables	$6,437,142,421
Add: Investments Purchased	987,595,173
Less: Investments Sold	(926,386,991)
Less: Interest and Dividends Receivable	(32,136,233)
Total Market Value, Net of Investment Receivables and Payables	$6,466,214,370

Investment Results (Pension Funds only)

MANAGERS	BENCHMARK	TOTAL MKT VAL (MILLIONS)	% OF TOTAL FUND	Investment Performance for Periods Ending FISCAL	1 YR	3 YRS *	5 YRS *
U.S. EQUITY							
COL. CIRCLE SMALL CAP[1]	Russell 2000	0.0	0.0%	(39.1)	(39.1)	(16.6)	(5.9)
MCM MID CAP	Wilshire 4500	123.0	2.0%	(19.3)	(19.3)	(8.3)	1.3
MCM S&P 500 LC	S&P 500	1,098.1	17.6%	(17.9)	(17.9)	(9.0)	3.9
MCM R2000 SM CAP	Russell 2000	103.7	1.7%	(7.5)	(7.5)	0.0	0.0
MFS ASSET MGMT	Wilshire 5000	172.0	2.7%	(21.8)	(21.8)	(8.1)	2.6
MOUNTAIN PACIFIC	Russell 2500	269.3	4.3%	3.6	3.6	6.4	8.8
TUKMAN CAPITAL MGMT	S& P 500	248.7	4.0%	(4.4)	(4.4)	1.9	10.2
TOTAL U.S. PUBLICLY TRADED EQUITY	Wilshire 5000	2,014.8	32.3%	(16.4)	(16.4)	(6.5)	3.9
PRIVATE EQUITY							
SAUGATUCK		6.4	0.1%	(2.1)	(2.1)	(10.8)	(4.7)
IDA-WEST		3.2	0.1%	0.0	0.0	4.7	21.8
GALEN III		24.9	0.4%	14.5	14.5	3.4	3.4
HARVEST PARTNERS		21.9	0.3%	24.0	24.0	7.9	0.0
FURMAN SELZ		12.5	0.2%	(0.9)	(0.9)	3.6	0.0
MCCOWN DE LEEUW		8.9	0.1%	(12.7)	(12.7)	(21.3)	0.0
PROVIDENCE EQ PARTNERS		11.7	0.2%	(47.2)	(47.2)	(13.9)	0.0
CHISOLM PARTNERS		13.0	0.2%	(48.8)	(48.8)	(9.5)	0.0
LITTLEJOHN II L.P.		5.6	0.1%	(2.3)	(2.3)	0.0	0.0
PERSI-OAKTREE CAP		5.1	0.1%	(9.2)	(9.2)	0.0	0.0
PERSI-GOENSE BOUNDS		4.5	0.1%	7.0	7.0	0.0	0.0
HWY 12 FD VENTURE LP		1.3	0.0%	0.0	0.0	0.0	0.0
T3 PARTNERS II L.P.		0.2	0.0%	0.0	0.0	0.0	0.0
THOMAS LEE L.P.		17.9	0.3%	0.0	0.0	0.0	0.0
PERSI APOLLO MGMT LP		3.4	0.1%	0.0	0.0	0.0	0.0
ZESIGER CAPITAL GROUP		29.0	0.4%	(26.0)	(26.0)	0.0	0.0
TOTAL PRIVATE EQUITY		169.5	2.7%	(12.2)	(12.2)	(7.2)	(1.0)
REAL ESTATE							
LEND LEASE - PUBLIC R/E		175.6	2.8%	19.5	19.5	16.9	12.7
PRUDENTIAL		33.0	0.6%	13.7	13.7	9.3	12.5
TOTAL R/E MANAGERS		208.6	3.4%	18.6	18.6	16.0	16.3
BENCHMARK	NCREIF			6.5	6.5	9.9	12.0
TOTAL U.S. EQUITY	Wilshire 5000	2392.9	38.4%	(14.0)	(14.0)	(5.3)	4.6
GLOBAL EQUITY							
BARING ASSET MANAGEMENT	Wilshire 5000	164.2	2.6%	(16.7)	(16.7)	(12.3)	(0.1)
BRANDES INVST PARTNERS	Wilshire 5000	267.7	4.3%	(8.8)	(8.8)	5.8	12.1
CAPITAL GUARDIAN[2]	Wilshire 5000	162.3	2.6%	0.0	0.0	0.0	0.0
DEUTSCHE ASSET MGMT[3]	Wilshire 5000	177.2	2.9%	(13.1)	(13.1)	(3.0)	4.2
ZESIGER CAPITAL GROUP	Wilshire 5000	155.5	2.5%	(19.3)	(19.3)	4.6	6.8
TOTAL GLOBAL EQUITY	Wilshire 5000	926.9	14.9%	(13.8)	(13.8)	(0.6)	6.3
TOTAL U.S./GLOBAL EQUITY	Wilshire 5000	3,319.7	53.3%	(14.0)	(14.0)	(4.3)	5.0

Investment Results (Pension Funds only)

MANAGERS	BENCHMARK	TOTAL MKT VAL (MILLIONS)	% OF TOTAL FUND	Investment Performance for Periods Ending FISCAL	1 YR	3 YRS *	5 YRS *
INTERNATIONAL EQUITY							
GENESIS INVESTMENTS	Emerging Markets	90.5	1.5%	5.6	5.6	1.6	(5.9)
SCHRODER EMG	Emerging Markets	82.1	1.3%	(1.7)	(1.7)	(9.0)	(8.8)
MCM INTERNATIONAL	EAFE Net	249.4	4.0%	(9.1)	(9.1)	(6.6)	(0.2)
ROWE PRICE-FLEMING	EAFE Net	191.1	3.1%	(7.8)	(7.8)	(5.0)	(0.8)
SCHRODER CAPITAL	EAFE Net	181.8	2.9%	(11.0)	(11.0)	(3.9)	(1.0)
TCW LONDON-INTL EQ	EAFE Net	189.2	3.0%	(17.6)	(17.6)	(5.6)	(0.0)
TOTAL INT'L EQUITY	MSCI EAFE	984.1	15.8%	(9.1)	(9.1)	(4.9)	(1.6)
TOTAL INT'L EQUITY (HEDGED)[4]	EAFE Net	979.2	15.7%	(10.4)	(10.4)	(4.8)	(0.9)
BENCHMARK	EAFE INDEX NET			(9.5)	(9.5)	(6.8)	(1.5)
TOTAL EQUITY	Wilshire 5000	4,298.9	69.0%	(13.1)	(13.1)	(4.3)	3.8
BENCHMARK	Wilshire 5000			(16.6)	(16.6)	(8.2)	
U.S. FIXED INCOME							
DBF & CO FIXED	LB Mortgage	107.8	1.7%	9.4	9.4	8.6	7.8
DBF & CO-IDAHO MTGS	LB Mortgage	308.1	4.9%	10.6	10.6	9.9	9.0
STATE ST ADV-FX	LB Gov't/Corp	407.8	6.5%	7.7	7.7	7.7	7.4
SSGA-TIPS	US Treasury Inflation Index	704.7	11.4%	9.4	9.4	0.0	0.0
TOTAL U.S. FIXED INCOME	LB Aggregate	1,528.4	24.5%	9.2	9.2	9.0	8.2
GLOBAL FIXED INCOME							
CREDIT SUISSE ASSET MGMT[5]	LB Aggregate	177.9	2.9%	1.3	1.3	5.6	6.2
BARING ASSET MANAGEMENT	LB Aggregate	216.0	3.5%	7.2	7.2	7.6	7.5
TOTAL GLOBAL FIXED INCOME	LB Aggregate	393.9	6.4%	4.5	4.5	6.7	6.9
TOTAL FIXED INCOME	LB Aggregate	1,922.3	30.9%	8.2	8.2	8.5	7.9
BENCHMARK	LB Aggregate			8.6	8.6	8.1	7.6
OTHER							
UNALLOCATED CASH		6.1	0.1%	3.6	3.6	6.6	6.5
COMBINED TOTAL		6,227.3	100.0%	(7.1)	(7.1)	(0.4)	5.3
Add: Mutual Fund Holdings in 401(K) Plan		86.5					
Sick Leave Fixed Income Investments		54.6					
Sick Leave Equity Securities		68.7					
Investments Purchased		987.6					
Less:Interest and Dividends Receivable		(32.1)					
Investments Sold		(926.4)					
Total Pension Fund Investments Net of Receivables		$ 6,466.2					

*Rates of Return are annualized Returns under 1 year are unannualized

[1] Columbus Circle terminated 5/02

[2] Captial Guardian hired 5/02

[3] Formerly Scudder Stevens

[4] Includes Pareto Partners currency overlay account

[5] Formerly BEA Associates

Prepared using a time-weighted rate of return in accordance with AIMR's Performance Presentation Standards.

Schedule of Investment Income for the Last Six Years

Year	Interest	Dividends	Gains & Losses*	Total
1997	$94,242,982	$46,497,417	$632,387,334	$773,127,733
1998	106,511,929	53,007,558	687,506,474	847,025,961
1999	123,117,458	60,284,061	477,757,618	661,159,137
2000	153,008,941	71,583,903	629,687,058	854,279,902
2001	$165,528,342	$63,318,176	($669,263,570)	(440,417,052)
2002	$120,190,309	$68,412,290	($663,804,822)	$773,127,733

*Includes realized and unrealized gains and losses.

List of Largest Assets Held

Largest Bond Holdings (by Market Value) June 30, 2002

	Par	Bonds		Market Value
1	$ 327,025,760	U.S. TREASURY INFLATION INDEX NT	4.250% 01/15/2010 DD 01/15/00	$ 354,872,004
2	281,667,119	U.S. TREASURY INFLATION INDEX BD	3.875% 04/15/2029 DD 04/15/98	317,447,293
3	51,828,029	U.S. TREASURY INFLATION INDEX NT	3.875% 01/15/2009 DD 01/15/99	54,994,203
4	15,785,000	COMMIT TO PUR FNMA SF MTG	8.000% 07/01/2032 DD 07/01/02	16,766,669
5	15,100,000	COMMIT TO PUR FNMA SF MTG	7.000% 07/01/2032 DD 07/01/02	15,638,013
6	11,170,000	U.S. TREASURY NOTES	5.500% 05/15/2009 DD 05/15/99	11,817,413
7	11,200,000	BUNDESREPUBLIK DEUTSCHLAND	5.250% 04-JUL-2010 EUR	11,309,995
8	10,000,000	FEDERAL NATL MTG ASSN	3.125% 11/15/2023 DD 11/23/01	10,100,500
9	9,210,000	COMMIT TO PUR FNMA SF MTG	7.500% 07/01/2032 DD 07/01/02	9,664,790
10	8,390,000	FEDERAL HOME LN MTG DEBS	7.000% 07/15/2005 DD 07/10/00	9,187,386

Largest Stock Holdings (by Market Value) June 30, 2002

	Shares	Stock	Market Value
1	1,028,300	WAL MART STORES, INC.	$ 56,566,783
2	1,694,602	GENERAL ELEC CO.	49,228,188
3	657,588	AMERICAN INTL GROUP, INC	44,867,229
4	1,075,242	EXXON MOBIL CORPORATION	43,998,903
5	798,500	MICROSOFT CORPORATION	43,632,942
6	1,130,800	PFIZER, INC.	39,578,000
7	750,551	WELLS FARGO & CO.	37,572,583
8	468,600	FANNIE MAE	34,559,250
9	381,100	PROCTER & GAMBLE	34,032,230
10	819,102	CITIGROUP, INC.	31,740,203

A complete list of portfolio holdings is available upon request.

Schedule of Fees and Commissions for the Year Ended June 30, 2002

Investment Fees	Average Assets Under Management	Fees	Basis Points
Investment Manager Fees			
Equity Managers	$4,142,602,398	$13,502,612	33
Fixed Income Managers	1,884,500,645	1,354,767	7
Private Equity Managers	173,714,404	3,963,436	228
Real Estate Managers	199,267,211	2,887,389	145
Total Investment Manager Fees	$6,400,084,658	$21,708,204	34
Other Investment Service Fees			
Custodian/Record Keeping Fees		$3,761,295	
Investment Consultant Fees		492,159	
Legal Fees		187,411	
Actuary/Audit Service Fees		304,362	
Total Investment Service Fees		$4,745,227	7
Total Fees		**$26,453,431**	41

Broker Commissions	Base Commission	Total Shares	Commission per Share
Smith Barney Inc NY	$292,412	6,455,535	0.04530
Goldman Sachs & Co NY	235,318	11,150,449	0.02110
Merrill Lynch Pierce Fenner Smith Inc NY	226,422	5,521,132	0.04101
Morgan Stanley & Co Inc NY	223,621	22,452,791	0.00996
Credit Suisse First Boston Corp NY	211,149	4,681,367	0.04510
Salomon Bros Intl Ltd London	182,221	7,928,779	0.02298
Goldman Sachs Intl London	160,169	22,699,381	0.00706
Merrill Lynch Intl (2L) London	157,090	8,040,022	0.01954
Investment Technology Groups NY	141,857	7,089,882	0.02001
Morgan Grenfell Equities London	139,116	4,950,122	0.02810
C S First Boston Hong Kong	136,445	7,375,001	0.01850
Lehman Bros Inc NY	126,083	2,754,772	0.04577
Bear Stearns & Co Inc NY	121,828	3,038,847	0.04009
Morgan Stanley Intl London	121,026	4,501,857	0.02688
Merrill Lynch Intl (MEIT) London	117,758	10,507,537	0.01121
Lehman Bros London	110,624	4,873,319	0.02270
Warburg Dillon Read LLC NY	102,965	10,021,277	0.01027
Morgan Grenfell London	92,562	50,115,182	0.00185
Salomon Bros Inc NY	90,395	50,206,514	0.00180
James Capel London	87,161	2,761,213	0.03157
Citation Group NY	81,235	1,440,238	0.05640
Jefferies & Co Inc NY	80,324	1,705,641	0.04709
Prudential SEC Inc NY	79,183	1,766,523	0.04482
Morgan J P SECS Inc NY	72,080	138,178,896	0.00052
Montgomery Securities San Francisco	72,025	1,394,263	0.05166
Deutsche Banc Alex Brown Inc NY	69,707	1,788,486	0.03898
Union Bank Switzerland SECS London	68,421	6,098,052	0.01122
UBS Equities London	67,892	4,769,895	0.01423
Bernstein Sanford & CO NY	60,683	1,213,650	0.05000
Weeden & Co NY	60,680	1,053,000	0.05763
Other Brokers Under $60,000	2,499,662	469,287,882	0.00533
Total Broker Commissions	$6,288,114	875,821,505	0.00718

A complete list of broker commissions is available from PERSI. PERSI does not require that investment managers use specific brokers.

STATEMENT OF INVESTMENT POLICY AND GUIDELINES

I. Introduction
The Board of the Public Employee Retirement System of Idaho ("the Board")("the System") hereby establishes its Statement of Investment Policy for the investment of the trust funds ("the Trust") in accord with Idaho Code Chapter 13, Title 59.

II. Statutory Requirements
The investment of the Trust will be in accord with all applicable laws of the state of Idaho.

A. Sole Interest of Beneficiaries
Investments will be solely in the interest of the participants and beneficiaries and for the exclusive purpose of providing benefits to the participants and their beneficiaries and defraying reasonable expenses of administration.

B. Prudent Investments
Investments will be made with the judgment and care under the circumstances then prevailing, which people of prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable outcome as well as the probable safety of their capital. Investments will be diversified so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

C. Fiduciary Duties
The Board and its agents, including staff, consultants, and investment managers, will discharge their duties with respect to the fund solely in the interest of the members and retired employees, and with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

III. Investment Goals
A. General Objective

1. Purpose
The purpose of the investment of Trust assets is to provide funds to meet the obligations of the Public Employee Retirement System of Idaho (PERSI) while incurring the appropriate amount of risk consistent with attaining that goal. The Board will invest the assets of the Trust so as to meet the projected obligations of the System, and will reduce risk through diversification of the assets of the Trust.

2. Considerations
In determining the returns needed by the system, the acceptable risk levels, and the allowable investments, the Board will consider:

* the effect of particular investments on the total portfolio,
* the purpose of the plan,
* the diversification of the portfolio,
* liquidity needs and the current return relative to the anticipated cash flow requirements, and
* the projected return of the portfolio as it relates to the funding objectives of the plan.

B. Specific PERSI return and risk objectives

1. Investment Returns

(a) Actuarial Assumptions

In projecting obligations and the returns needed to meet those obligations, the Board will consider studies performed by actuaries hired by the Board. The actuary uses an investment return assumption of 8% before fees and expenses in balancing projected obligations, projected contributions, and projected returns on assets. Assuming all of the actuarial assumptions are accurate, this 8% return will suffice to: (1) assure the payment of statutorily required benefits, which includes a 1% Cost of Living Adjustment (COLA); and (2) maintain the reduction of the level of the unfunded liability (if any) on the scheduled amortization (one year at a time). The assumed 8% return will not be sufficient to fund either discretionary COLAs (2-6%), retroactive COLAs, accelerate the amortization of the unfunded liability, build a stabilization reserve, or allow for gain-sharing distributions.

(b) Inflation and Salary Assumptions

This 8% rate assumes an inflation rate of 4.25% and an annual general state salary growth of 5.25%. To the extent that either inflation or salary growth are higher or lower than these rates, then the investment returns needed will also be higher or lower than the assumed 8%, although not on a 1:1 ratio. Consequently, the investment returns actually needed by the system do not have a nominal rate which can be determined with precision in advance -- the 8% rate currently used by the actuary is only a general midpoint accurate over long (15-20) year periods and is only as accurate as are the inflation and salary assumptions.

(c) Relation to Funding Policy

As set out in the Board's funding policy, to the extent investment markets allow, it is the desire of the Board to provide discretionary COLAs, accelerate the amortization of any unfunded liability, and provide for gain-sharing. It is also the goal of the Board to maintain a reasonable amortization of any unfunded liability, and not to exceed the 25 year amortization period set by statute. Therefore, it is the goal of the Board to set an expected rate of return above the actuarially assumed return so that (1) discretionary COLAs will have a reasonable chance of being consistently funded and (2) the scheduled amortization of any unfunded liability is not unreasonably jeopardized. Returns above that amount will be used to build a stabilization reserve and to distribute to the System participants through gain-sharing.

(d) Periodic Specific Return Goals

Because of the inflation sensitivity of both the returns needed by the system and the size of annual COLAs, an exact target return (either real or nominal) cannot be set in advance. Nonetheless, under most reasonable actuarial assumptions, PERSI has a relatively stable real return goal of between 4.75% - 5.25% if consistent funding of discretionary COLAs and providing for gain sharing is included as an objective. Consequently, specific return goals for upcoming periods will be set out in the strategic asset allocations periodically adopted by the Board.

2. Investment Risk and Strategic Asset Allocations

(a) Diversification Among Asset Classes

In controlling the risk level that is appropriate for the Trust, the Board will diversify the assets of the Trust among various asset classes as the Board may from time to time adopt as appropriate asset classes. The specific asset classes to be used will be set in conjunction with the strategic asset allocation adopted from time to time by the Board.

(b) Review of Asset Classes and Asset Allocation

In setting strategic allocations, the Board will focus on assuring that the expected long-term returns will meet expected long-term obligations with the appropriate level of risk sufficient to meet those objectives. The Board will at least once every four years determine the appropriate asset classes for the investment of Trust assets and conduct asset allocation studies to help determine the long term strategic allocations among desired asset classes so as to meet long-term return objectives with the appropriate level of risk.

(c) Content of Strategic Asset Allocations

The strategic asset allocation will set out the asset classes to be used, the long-term strategic "normal" percentage of assets to be invested in each asset class, the short to intermediate term ranges that will be considered allowable temporary deviations from the strategic normal allocation, the investment risk and return expectations for each asset class, the numerical investment return and risk expected to be realized, and the relation of the expected investment return to the real and actuarially assumed investment return.

(d) Strategic Policies

In addition to asset allocation, the Board may from time to time adopt strategic policies. "Strategic policies" are actions by the Board to invest in asset types that have not been singled out as "asset classes" in the asset allocation process, to overweight particular sectors within an asset class, or to employ particular strategies in the investment of Trust assets. The purposes of these actions are either to increase the return above the expected return or to reduce risk. Examples of types of strategic policies include: a tilt towards small capitalization stocks in U.S. equity allocations; a tilt toward mortgage exposures in fixed income; hedging international currency exposures through a currency overlay program, and adding international emerging markets exposure in international equities.

IV. Investment Structure

A. Overall Structure

In making individual investment policy decisions, the Board will have as an overall goal a flexible, simplified structure with clear roles and accountability.

1. Board Ultimately Responsible

The Board is ultimately responsible for all investment activities. In exercising this responsibility, the Board will hire investment personnel and agents and delegate various investment functions to those personnel and agents. Where the Board does not delegate investment powers or duties, the Board will either satisfy itself that it is familiar with such matters, or will retain persons who are familiar with such matters to consult or assist the Board in the exercise of those responsibilities. Where the Board delegates a responsibility, it will be delegated to a person who is familiar with such matters, and the Board will monitor and review the actions of those to whom responsibilities are delegated.

2. General Roles and Responsibilities of Board and Agents

The Board will favor a structure that accommodates a citizen Board and a small staff. The Board and staff will concentrate their activities on:

* strategic decisions, primarily concerning asset allocation and strategic policies;
* adjusting the mix between passive and active managers depending on, among other considerations, near-term concerns regarding the U.S. and other capital markets; and
* delegating and monitoring all other activities, including hiring and monitoring investment managers.

The Board will rely on outside agents, and primarily investment managers, to be responsible for non-strategic decisions. This responsibility includes those investment decisions with shorter-term consequences such as the best near-term securities, regions, asset types, or asset classes.

B. Direct (Non-Delegated) Responsibilities of the Board

1. Specific Responsibilities

The Board will be directly responsible for

* Setting investment policy,
* Determining the investment structure of the Trust,
* Determining the asset classes to be utilized,
* Setting the strategic asset allocation,
* Determining strategic policies;
* Hiring agents to implement the strategic asset allocation;
* Hiring agents to implement strategic policies; and
* Monitoring the compliance of those agents with the investment policies and strategic allocations set by the Board.

2. Delegation and Monitoring of Specific Investment Activities

The Board will normally delegate investment decisions concerning specific securities or assets, or the tactical allocations of assets among asset types, to outside agents. The Board will retain direct responsibility for the monitoring of the activities of those agents through periodic reports from its staff or consultants. The Board may choose to exercise direct investment responsibility if unusual market conditions or other circumstances so indicate.

C. Employees, Consultants, and Advisors to the Board

1. Investment Staff

(a) Duties of Chief Investment Officer and Other Staff

The Board will hire a Chief Investment Officer and such other staff as it considers appropriate who will be generally responsible for the oversight of the investment of Trust assets, and, as part of that overall responsibility, will: (1) supervise, monitor, and evaluate the performance of the investment managers hired by the Board to assure compliance with investment policy and individual guidelines; (2) assist the Board in developing and adjusting investment policy, including reviewing and modifying the asset allocation as conditions warrant; (3) research current market conditions, evaluate new products, and seek out new approaches to improve portfolio return, reduce risk, and reduce costs and fees; (4) work with the consultants, custodians, investment managers, and other agents in the performance of their assigned duties; and (5) assist the Board with education and other efforts to promote good decision making. Except in special circumstances, PERSI staff will not be responsible for the investment, purchase, or sale of specific assets.

(b) Allocation of New Net Contributions

The Chief Investment Officer shall allocate new net contributions to or withdraw net distributions from the system among investment managers in accordance with the strategic and tactical ranges established by the Board in the strategic asset allocation. The Chief Investment Officer shall report to the Board regularly on the allocation of new net contributions or the withdrawal of net distributions.

(c) Tactical Asset Allocation

With prior notice to the Board, the Chief Investment Officer may shift assets among managers (including between passive and active managers) as long as the asset allocation is maintained within the strategic ranges. If conditions do not permit giving prior Board notice, the Chief Investment Officer is authorized to move assets among investment managers within the strategic ranges established by the

Board. If such action is taken, the Chief Investment Officer shall notify the Chairman of the Board as soon as is practical either that action is contemplated or has been taken, as circumstances warrant.

(d) Minimum Qualifications of Chief Investment Officer

The Chief Investment Officer shall at least: (a) have a graduate degree in finance, law, business administration, or a related field, or (b) be a Chartered Financial Analyst; or (c) have three or more years experience in the investment of trust assets.

2. Actuaries

The Board will hire an actuary to provide studies that will: (1) determine the long term obligations faced by the System through annual actuarial valuations, (2) set out return objectives or assumptions that will be sufficient to meet those obligations; and (3) provide reviews at least once every four years of the actuarial valuation process, including updating the projections and assumptions in light of the experience of the System. The Board will set its long-term return objectives after considering information provided by those studies.

3. Investment Consultants

The Board will hire a qualified independent consultant, whose relationship does not impose a conflict of interest with the Board or staff, to provide investment performance measurement at least quarterly with the report available to the Board within three months of the quarter end. The report will at least compare actual investment returns of the system -- in total, by each asset class, and for each managed portfolio -- with both the investment objectives of the system and a composite of returns of other institutional investors. The Board may hire other independent investment consultants as needed to assist the Board in the management of its investment activities, including, but not limited to: (1) performing asset allocation studies, and reviewing and recommending modifications of the asset allocation as conditions warrant; (2) assisting in monitoring the investment managers to assure they are in compliance with the investment policy and their individual guidelines; (3) performing manager evaluations and searches as may be necessary; and (4) assisting in the development and adjustment of investment policy. Except for consultants retained solely for purposes of performance measurement, consultants will be fiduciaries of the Trust.

D. Managers or Agents with Delegated Responsibilities

1. Custodian

(a) Responsibilities

The Board will hire custodians and other agents who will be fiduciaries of the Trust and who will assume full responsibility for the safekeeping and accounting of all assets held on behalf of the Trust. Among other duties as may be agreed to, the custodian will be responsible for: (a) the receipt, delivery, and safekeeping of securities; (b) the transfer, exchange, or redelivery of securities; (c) the claiming, receipt, and deposit of all dividend, interest, and other corporate actions due the Trust; (d) the daily sweep of all uninvested funds into a cash management account or accounts; and, (e) the provision of reports to PERSI upon agreed time intervals that will include all purchases and sales of securities, all dividend declarations on securities held by the Trust, a list of securities held by the Trust, and a cash statement of all transactions for the Trust account.

(b) Authorization of Collective Investment Trusts

Assets of the Trust may be invested in any collective investment trust, which at the time of the investment provides for the pooling of the assets of plans described in Section 401(a) of the Internal Revenue Code of 1986, as amended, and which is exempt from Federal income tax. Assets of the Trust may be commingled with assets of other trusts if invested in any collective investment trust authorized by this policy. The provisions of the trust agreement, as amended by the trustee thereof from time to time, of each collective investment trust in which Trust assets are invested are by this reference incorporated as a part of the trust estate comprising the Trust. The provisions of the collective investment trust will govern any investment of Trust assets in that trust.

2. Investment Managers

The Board will hire investment managers who will be fiduciaries of the Trust and who will be responsible for the investment of Trust assets in specific securities or assets within or among the asset classes.

(a) Minimum Qualifications

Investment managers shall be registered with the Securities and Exchange Commission (unless they are banks, insurance companies, or other category exempted from such registration requirements), have been in the business of investment management at least two years (or the main personnel of the investment management firm have worked together in the business of investment management for at least two years), and, usually, have other United States pension fund assets under management.

(b) Guidelines

Investment Managers shall manage assets in accordance with additional guidelines established by contract and as may be added to or modified from time to time. The additional guidelines will contain minimum diversification requirements that must be followed by that manager. These guidelines will also set out the investment return expected to be achieved by that manager, and shall be linked to a benchmark that represents the passive index fund that would be used to replicate the manager's assignment.

(c) Responsibilities and Discretion

Subject to the restrictions set out in this policy or as may be set out in individual contracts or guidelines, an investment manager shall have full discretionary power to direct the investment, exchange, and liquidation of the assets entrusted to that manager. The manager shall place orders to buy and sell securities and, by notice to the custodian, cause the custodian to deliver and receive securities on behalf of the Trust.

(d) Corporate Governance

The Board, unless otherwise stated, will delegate the voting of proxies to the investment manager or custodian. The Board will adopt and from time to time modify a proxy voting policy. The staff will review the investment manager's policies governing the voting of proxies to assure consistency both with the policy of the Board and, to the extent feasible, among the various investment managers.

(e) Transactions and Brokerage

All securities transactions shall be executed by reputable broker/dealers or banks, and shall be on a best price and best execution basis.

3. Use of Passive and Active Managers

(a) Purpose and Use of Active Management

The Board recognizes that passive (index fund) investing has lower costs than active investing, with regard to both management fees and transaction costs. Further, the Board also recognizes that there is uncertainty concerning whether active investing can generally outperform passive investing, particularly in the large, liquid, and efficient portions of the capital markets. Also, the Board has great confidence that a passive investment of assets in an efficient asset allocation will likely meet long-term (20 year) obligations.

Contribution rates, COLAs, and the ability to provide for gain-sharing, however, are based on 1-5 year returns. The Board does have concern that over 1-5 year periods the ability consistently to fund COLAs and to keep contribution rates stable are in considerable jeopardy from two sources: (1) expected "normal" market fluctuations are such that annual returns will likely not meet hurdle rates approximately 40% of the time, with actual negative returns to be expected once every six years; and (2) that most of Trust assets under the strategic asset allocation will be invested in U.S. capital markets, and are thus vulnerable to poor U.S. returns.

One purpose of active management of Trust assets is to address these two concerns. Active managers will be hired for the purpose of providing greater stability of returns, and better returns, than would be achievable under purely passive management over rolling 3-5 year periods. Active managers will be responsible for timing of markets and the tactical allocation of assets among and within the capital markets (including between the U.S. and international markets).

In addition to providing extra returns, active managers will also be employed to smooth returns, provide higher long-term returns, provide protection in adverse markets, and to add exposure and additional diversification to the portfolio than that achievable solely through investment in passive indices representing the strategic asset allocation and strategic policies.

(b) Structure

In using outside managers, the Board will favor a structure using a reasonable number of managers with broad mandates and benchmarks. This preference will be implemented so as to achieve the following goals: to relieve the Board from making timing decisions in allocating assets among numerous specialized managers, to simplify the structure of the fund, and to reduce the number of active managers and thus expenses to the Trust.

Passive managers will be favored for the core, liquid, efficient markets (such as S&P 500 stocks and U.S. Government/Corporate bonds), and active managers will be favored for relatively inefficient markets (such as international emerging markets). Global managers will be used to provide flexibility in reacting to near-term concerns that may arise concerning any particular region or market, particularly the U.S. capital markets, and to provide an appropriate balance between efficient long-term asset allocations (which favor US assets) and near-term allocations (which have a greater preference for international assets) to meet the real (inflation adjusted) return needs of the System. Consequently, actual allocations to international equities in the overall portfolio from time to time may be above that in the strategic asset allocation due to the activities of the global equity managers. The actual exposure to international equities will be maintained within the strategic range unless there is prior review by the Board before those ranges are exceeded.

(c) Balance between Passive and Active Management

The balance between active and passive management will be set from time to time with the following considerations in mind: concentration of active investment efforts where there is the most potential for excess returns, implementation of views concerning the state of the U.S. and international capital markets, and reduction of fees and other costs.

(d) Monitoring Standards

Active managers will be monitored under two standards: First, over rolling 3-5 year periods managers will be expected to exceed, after fees, the benchmark index that represents the passive alternative to the mandate given the manager, and to rank in the top half of the universe of managers that best fits that manager's mandate. Second, over shorter periods of time, managers will be expected to maintain key personnel, a consistent style, and investment capability. Passive managers will be monitored on their ability to track their benchmark index over both short (1 quarter to one year) and long periods (3 to 5 year). The Board may consider other information it considers relevant, including composite manager indices, in determining whether to retain or terminate managers.

V. Asset Class Policies

A. U.S. Equities

1. Objective

The overall objective of the U.S. equity asset class is to obtain, over time, a return after fees that equals or exceeds the returns of the Russell 3000 Index, both absolutely and on a risk-adjusted basis.

2. Allowable Investments

Managers may invest in stocks that do not pay dividends. Managers may invest in equity securities outside of the Russell 3000 Index. Managers may use derivative securities for purposes of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure in the portfolio.

3. Manager Styles

Managers for this asset class may include index funds, style managers (such as value and growth), "core" managers, and global managers. Global managers are managers who may invest in securities located anywhere in the world, both within and outside of the United States.

4. Benchmarks

The Russell 3000 index will be the benchmark for the passive index funds, core managers, and global managers. Other style or capitalization indices maintained by a qualified organization may be used as the benchmark for style managers. Active U.S. equity managers are expected to exceed, over rolling 3-5 year intervals, the applicable benchmark by 75 basis points annually after fees, and to rank in the top 50th percentile of active managers with similar mandates.

B. International Equities

1. Objective

The overall objective of the International Equity Asset Class is to obtain, over time, a return after fees that equals or exceeds the returns of the Morgan Stanley Capital International Europe, Australia, and Far East (MSCI EAFE) Index (unhedged), or the FT Actuaries World ex U.S. Index, both absolutely and on a risk-adjusted basis.

2. Allowable Investments

Managers may invest in stocks that do not pay dividends. Managers may invest in American Depository Receipts or American Depository Shares. Managers may invest in equity securities of companies or in countries that are not included in the indices. Managers may use derivative securities for purposes of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure in the portfolio. Managers may, at their discretion, hedge the currency exposure of all or part of their portfolios. Managers may not overhedge their portfolio, although proxy hedging for purposes of liquidity and cost savings is allowed.

3. Manager Styles

Managers for this asset class may include index funds, general international managers, regional or specialized managers (such as emerging markets), and global managers. The Board may from time to time hire a currency overlay manager to hedge the currency exposure in those portfolios where managers do not actively or normally consider hedging their exposure.

4. Benchmarks

The MSCI EAFE Index (unhedged), or the FT Actuaries World ex U.S. (unhedged) will be the benchmark for the passive index funds, general international managers, and global managers. Regional or specialized indices (unhedged) maintained by a qualified organization may be used as the benchmark for other active managers. Active international equity managers are expected to exceed, over rolling 3-5 year intervals, the applicable benchmark by 75 basis points annually after fees, and to rank in the top 50th percentile of active managers with similar mandates.

C. Fixed Income

1. Objectives

The overall objective of the Fixed Income Asset Class is to obtain, over time, a return after fees that equals or exceeds the returns of the Lehman Brothers Aggregate Bond Index (Aggregate Bond Index) both absolutely and on a risk-adjusted basis.

The Fixed Income Asset Class shall consist of investments in mortgages and in both dollar and non-dollar fixed income securities. Mortgages shall consist of investments in mortgage backed securities, and direct ownership of commercial mortgages through the Idaho Commercial Mortgage Program.

The objective of the non-mortgage fixed income securities is to obtain, over time, a return after fees that equals or exceeds the returns of the Lehman Brothers Government/Credit Bond Index (Government/Credit Bond Index) on a risk-adjusted basis. The overall objective of the mortgage securities is to obtain, over time, a return after fees that equals or exceeds the returns of the Lehman Brothers Mortgage Index (Mortgage Index) on a risk-adjusted basis.

2. Allowable Investments

Managers may invest in debt securities that do not pay interest. Active managers may invest in securities in companies or countries that are not included in the indices. Managers may use derivative securities for purposes of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure in the portfolio. Fixed income managers may, at their discretion and to the extent allowed by their contracts and guidelines, use currency forward or futures markets as may be considered appropriate to implement fixed income strategies.

3. Manager Styles

Managers in this asset class may include index funds, domestic bond managers, specialized managers, and global managers.

4. Benchmarks

The Government/Corporate Index or Aggregate Index will be the benchmark for all non-mortgage fixed income managers. The Mortgage Index will be the benchmark for all mortgage managers. The Aggregate Index will be the benchmark for the asset class. Active fixed income managers are expected to exceed, over rolling 3-5 year intervals, the applicable benchmark by 25 basis points annually after fees, and to rank in the top 50th percentile of active managers with similar mandates.

D. Real Estate

1. Objectives

Private equity real estate investments will be considered part of the U.S. Equity asset class. The overall objective of private equity real estate investments is to attain a 6% real rate of return overall, over a long-term holding period, as long as this objective is consistent with maintaining the safety of principal. The 6% real rate of return includes both income and appreciation, is net of investment management fees, and is net of inflation as is measured annually by the Consumer Price Index. Over a short term basis, the objective is to earn a nominal minimum income yield of 6% on each individual investment, or inflation plus 3%, whichever is greater.

2. Allowable Investments

Allowable private equity real estate investments will include open-end and closed-end commingled real estate funds, publicly traded real estate investment trusts, and direct real estate investments originated by selected real estate advisors who structure similar investments with other institutional investors. The real estate asset sector will not include solely debt obligations; in particular, straight mortgage interests will be considered part of the fixed income asset class.

3. Need for Income Component of Return

Upon acquisition, each real estate investment must have as a goal the expectation of production of annual income measured by realized return and not capital appreciation. Thus, a significant proportion of income producing properties and not purely development properties should be the objective of any commingled fund acquired.

4. Protection of the Trust

Investment vehicles should be chosen that will protect the Trust, including provision for investments that do not contain debt or liability with recourse beyond the Trust commitment to the related business entity, provision for inspection and evaluation of environmental hazards prior to the purchase of any specific property, and the provision of insurance coverage to protect against environmental and natural hazards.

5. Reporting

A comprehensive reporting system for individual investments or funds will be maintained so that poorly performing investments and deficiencies in portfolio diversification can be identified and active portfolio management facilitated. Investment managers shall be required to present opinions of fair market value as part of quarterly and annual reporting requirements, and audited financial statements shall be required at least annually for each investment entity.

E. Alternative Investments

1. Definition and Board Approval

The Board may from time to time authorize the investment of Trust assets in entities or structures that do not fit the asset descriptions listed above. Examples of such investments are venture capital partnerships, private equity, leveraged buy-out funds, private debt, and direct ownership of individual assets such as oil and gas partnerships. These investments shall only be entered into with the specific approval by the Board or a subcommittee given specific delegation by the Board of each investment vehicle, or investment manager.

2. Objectives and Benchmarks

If the alternative investment is an equity investment, the objective for the investment will be to exceed, over time and after fees, the return achieved by the Russell 2000 Index times 1.35. If the alternative investment is a debt investment, then the objective will be to exceed, over time and after fees, the returns achieved by the Lehman Brothers Government/Credit Index plus 3%. It is recognized that these investments will experience greater volatility than the comparable publicly traded securities and indices.

3. Asset Allocation

For purposes of asset allocation, alternative equity investments will be treated as part of the U.S. equity asset class, and alternative debt investments will be treated as part of the fixed income asset class.

STRATEGIC ASSET ALLOCATION

Asset Class	Expected Return	Expected Risk	Strategic Normal	Strategic Ranges	Allocation Year Ended June 30, 2002
U.S. Equity	10.4%	19%	54%	44% - 57%	43%
International Equity	11.0%	22%	15%	12% - 25%	23%
Total Equities			69%	66% - 75%	66%
Fixed Income	6.6%	7%	30%	27% - 33%	31%
Cash	4.0%	1%	1%	0% - 5%	3%

Total Fund	Expected Return	Expected Inflation	Expected Real Return	Expected Risk
Actuary	8.00%	4.25%	3.75%	n/a
Portfolio	9.30%	3.75%	5.55%	13.50%